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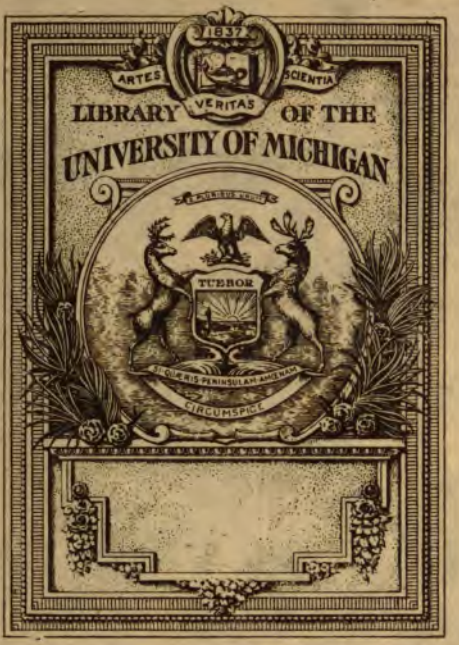

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War Loans
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United States

1917

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War Loans

Lessons from the Past: Opportunities for the Future

WAR financing is practically as old as History. Every nation at some time or another has been obliged to borrow greater or lesser amounts to furnish "the sinews of war," and, to meet these emergencies, various expedients have been attempted. In this field the United States has had a fruitful experience. In the one hundred and forty years which mark the life of this Republic the country has passed through five eventful wars, including one of the most tremendous of modern struggles. And the part played by the men who financed the military necessities of the nation has been scarcely inferior to that of the men on the firing line and on the high seas.

Revolutionary Loans

When the patriots at Lexington "fired the shot heard 'round the world," the thirteen colonies found themselves suddenly in the midst of war, but with practically no funds in their Treasuries. The Continental Congress was without power to raise money by taxation, and had to depend upon credit bills and requisitions drawn against the several colonies. France was the first foreign country to come to the aid of struggling America, the King of France himself advancing us our first loan. All told France's loan was $6,352,500; Holland loaned us $2,000,000; and Spain assisted us with $174,017. Our loan from France was repaid between 1791 and 1795 to the Revolutionary Government of France; the Holland loan during the same period in five annual installments; and the Spanish loan in 1792-3.

First Domestic Loan

Our first domestic war loan of £6,000 was made in 1775 and the loan was taken at par.

A year and a half later found Congress laboring under unusual difficulties. Boston and New York were held by the enemy, the patriot forces were retreating, and the people were as little inclined to submit to domestic taxation as they had formerly been to "taxation without representation." To raise funds even a lottery was attempted. In October, 1776, Congress authorized a second loan for $5,000,000. It was not a pronounced success, only $3,787,000 being raised in 12 months. In 1778, fourteen issues of paper money were authorized as the only way to meet the expenses of the army. By the end of the year 1779, Congress had issued $200,000,000 in paper money, while a like amount had been issued by the several States. In 1781, as a result of this financing and of the general situation, Continental bills of credit had fallen 99%.

First Bank of Issue

Then came Robert Morris, that genius of finance, who found ways to raise the money

which assured the triumph of the American cause. By straining his personal credit, which was higher than that of the Government, he borrowed upon his own individual security on every hand. On one occasion he borrowed from the commander of the French fleet, securing the latter with his personal obligation. If Morris and other patriotic citizens had not rendered such assistance to the Government, some of the most important campaigns of the Revolutionary War would have been impossible. Following came the Bank of Pennsylvania which issued its notes—in effect, loans—to provide rations and equipment for Washington's army at Valley Forge. These notes were secured by bills of exchange drawn against our Envoys abroad, but it was never seriously intended that they should be presented for payment. The bank was a tremendous success in securing the money necessary to carry out its patriotic purposes, and was practically the first bank of issue in this country.

Hamilton's Funding Policy

With the actual establishment of the United States and the adoption of the Constitution, Alexander Hamilton came forward with a funding scheme by which the various debts owed to foreign countries, to private creditors, and to the several States were combined. In 1791, on a specie basis, our total debt was $75,000,000. The paper dollar was practically valueless and the people were forced to give the Government adequate powers to raise money and to impose taxes. Between that date and 1812, thirteen tariff bills were passed to raise money to meet public expenditures and pay off the national debt.

War of 1812

For some time previous to the actual outbreak of the War of 1812, hostilities had been predicted. In a measure, this enabled Congress to prepare for it. And although the war did not begin until June of 1812, as early as March of that year a loan of $11,000,000, bearing 6% at par, to be paid off within 12

years from the beginning of 1813, was authorized. Of this, however, only $2,150,000 was issued, and all was redeemed by 1817. The next year a loan of $16,000,000 was authorized. This loan was redeemable after January 1, 1826, it paid 6% interest, and sold at 88. The amount issued was $18,109,137, which was all paid off by 1821.

At the end of the war the total loans negotiated by the Government aggregated $88,000,000. The nation's public debt, as a result of this war, was increased to $127,334,933 in 1816. By 1835, either by redemptions or maturity, it was *all paid.*

Mexican War Loans

The Mexican War debt incurred by the United States, exceeded $43,000,000 and was financed by loans in the form of Treasury notes and Government stock. The Treasury notes, under the act of 1846, totalled $7,687,800 and the stock $4,999,149. The latter paid 6% interest. By act of 1847, Treasury notes to the

amount of $26,122,100 were issued, bearing interest in the discretion of the Secretary of the Treasury, reimbursable one and two years after date, and convertible into United States stock at 6%. They were redeemable after December 31, 1867. Economic developments following this war led to a period of extraordinary industrial prosperity which lasted for several years. A change in the fiscal policy of the Government, however, resulted in a panic in 1857 and a Treasury deficit in 1858. The debt contracted in consequence of the Mexican war was redeemed in full by 1874.

Civil War Loans

The situation had not improved to any great extent when Lincoln took office on March 4, 1861, and by mid-November of that year a panic was in full swing. The outbreak of the Civil War found the Treasury empty and the financial machinery of the Government seriously disorganized. Public credit was low, the public mind was disturbed, and raising

money was difficult. In 1862, the Legal Tender act was passed, authorizing an issue of $150,000,000 of legal tender notes, and an issue of bonds in the amount of $500,000,000 was authorized.

This proved to be a most popular loan. The bonds were subject to redemption after five years and were payable in twenty years. They bore interest at 6%, payable semi-annually, and were issued in denominations of $50, $100, $500, and $1000. Through one agent, Jay Cooke, a genius at distribution, who employed 2,850 sub-agents and advertised extensively, this loan was placed directly with the people at par in currency. Altogether the aggregate of this loan was $514,771,600. Later in that year Congress authorized a second issue of Treasury notes in the amount of $150,000,000 at par, with interest at 6%; in January, 1863, a third issue of $100,000,000 was authorized, which was increased in March to $150,000,000, at 5% interest. These issues were referred to as the "one and two-year issues of 1863."

Deficit in 1863

In December, 1863, Congress had to face a deficit of $277,000,000 and unpaid requisitions amounting to $47,000,000. By the close of that year nearly $400,000,000 had been raised by bond sales. A further loan act, passed March 3, 1864, provided for an issue of $200,000,000 of 5% bonds known as "ten-fortys," but of this total only $73,337,000 was disposed of. Subsequently, on June 30, 1864, a great public loan of $200,000,000 was authorized. This was an issue of treasury notes, payable at any time not exceeding three years, and bearing interest at 7 3/10%. Notes amounting to $248,601,680 were sold. The aggregate of Government loans during the Civil War footed up a total of $2,600,700,000; and on September 1, 1865, the public debt closely approached $3,000,000,000, less than one-half of which was funded.

Civil War loans, with one exception, which sold at 89 8/10, were all placed at par in currency, subject to commissions ranging from

an eighth to one per cent. to distributing bankers. The average interest nominally paid by the Government on its bonds during the war was slightly under 6%. Owing to payment being made in currency, however, the rate was, in reality, much higher. With the conclusion of the war, the reduction of the public debt was undertaken, and it has continued without interruption to date.

Heavy tax receipts for several years after the close of the war potentially enabled the Government to reduce its debt. Indeed, from 1866 to 1891, each year's ordinary receipts exceeded disbursements, and enabled the Government to lighten its financial burdens. In 1866, the decrease in the net debt was $120,395,408; in 1867, $127,884,952; in 1868, $27,297,798; in 1869, $48,081,540; in 1870, $101,601,917; in 1871, $84,175,888; in 1872, $97,213,538; and in 1873, $44,318,470.

Through refunding operations—in addition to bonds and short-time obligations redeemed with surplus revenues—the Govern-

ment paid off, up to 1879, $1,395,345,950 bonds bearing interest at from 5 to 6%. In this year the credit of the Government was on a 4% basis, and a year later on a 3¼% basis, against a maximum basis of 15½% in 1864.

Between 1881 and 1887, the Government paid off, either with surplus revenues or by conversion, another $579,560,050 bonds. In *1891*, all bonds then redeemable were retired, and on July 1, 1893, the public debt amounted to less than one-third of the maximum outstanding in 1865. In 1900, the Government converted $445,900,000 bonds out of an aggregate of $900,000,000 convertible under the refunding act passed by Congress in that year. And further conversions in 1903, 1905, and 1907 brought the grand total up to $647,250,150—a result which earned for the Government a *net annual saving* in interest account of $16,551,037.

The United States is a debt-paying nation. We are always ready to contract a public debt when necessary, but are, if any-

thing, more zealous in repaying it. Hamilton's admonition as to the fundamental necessity of maintaining a high standard for our national credit and an unsullied reputation for punctual performances of all public contracts has been the country's text and gospel for a century and a quarter. Hence, America's credit, despite occasional fluctuations, has steadily risen, and today our national debt sells on a lower income basis than that of any other nation in the world.

A Popular Loan

Following the sinking of the Maine in Havana Harbor, in 1898, Congress authorized an issue of $200,000,000 3% ten-twenty year bonds. Of this aggregate $198,792,660 were sold by the Government at par. So popular was this loan, it was oversubscribed seven times. During the year 1898, following the allotment to the public, this issue sold at a premium, the price going to 107¾, and, during the next year, to 110¾. After the war ended, the Government, in accordance with its un-

varying custom, began to pay off this debt; but, despite the Secretary of the Treasury's offer to buy these bonds, he succeeded in purchasing only about $20,000,000 bonds.

Preserved America's Ideals

America's war loan experience, therefore, is practically co-extensive with the life of the nation. The ready willingness of our citizens to subscribe for each recurring war loan issue has been our mainstay in preserving the ideals of the Founders of the Republic, in perpetuating the fundamental principles of American government. Without the financial support of the people in the several crises referred to, American history as we know it today might have never been written. Patriotic and public-spirited assistance herein has been a chief factor in shaping our destiny. The burdens imposed have been cheerfully assumed and readily discharged in the constant increase of wealth and taxable resources. The lessons we have derived from our own internal experiences of the past may help

to interpret the full significance of foreign war loans and to grasp the opportunities now opened through that larger field of external investment.

Foreign War Loans

While the present war in Europe has entailed a great sacrifice in men and money upon many countries, it has not been without economic benefit. The tremendous gain in our export trade in 1916 over 1913 was largely the result of purchases stimulated by the war. In 1914, our merchandise exports totalled $2,355,000,000. In the next year, the aggregate rose to $3,554,670,847, an amazing increase. And, in 1916, the $5,000,000,000-total was passed, when merchandise exports from the United States reached a value of not less than $5,480,900,931. Measured upon a per capita basis this aggregate represents about $55 for 1916 as against $25 for 1913; and is incontestable proof of a prosperity that, despite the regrettable cause is, nevertheless, an unquestioned certainty.

Increase in Financial Strength

One result of this unprecedented foreign market has been a marvelous increase in the financial strength of the United States. Through the influx of gold in payment for the commodities supplied by us, we now hold about 30% of the world's total supply of gold, an increase over the stock held by us in 1914 of, approximately, 36%. In the last two years the gold stock of the United States has been increased $950,000,000, through imports, expanding to $2,864,841,650, as officially reported, on December 31, 1916. This is almost double the amount held ten years ago. In addition, American securities to the value of more than $2,000,000,000 have been bought back by us.

Basis for Foreign Loans

Our possession of this superabundance of gold throws upon us the obligation of employing it intelligently. And from an economic point of view, no better way can be

devised for its use than as a basis for foreign loans and the extension of foreign trade.

Nor should we overlook the fact that a vast accumulation of gold is in itself a thing of evil possibility; for, in accordance with all economic traditions, such a situation invariably leads to abnormal credit expansion, inflated prices, and not infrequently to unsound speculation. The consequent disastrous reaction of such developments upon our business fabric as a whole would result in widespread depression and, perhaps, in commercial paralysis and industrial stagnation.

Loans Mean Insurance

By adopting, however, a policy of enlightenment and by lending back to our customers a reasonable proportion of the gold received from them, or by extending to them reasonable credits, we shall be able to guarantee the permanence of our trade relations with them, while, at the same time, averting for ourselves the penalties of overspeculation and overexpansion. Thus, a lending policy on our

part would not only prove to be a species of protective insurance but in effect would remove us from the debtor-nation class to which we have heretofore belonged and might raise us to the very pinnacle among creditor nations—a class whose commercial prosperity is assured and whose foreign trade relations are most permanently established.

Fixed Income from Interest

The financial prestige enjoyed by Great Britain and France before the war sprang directly from the policy which induced these nations to finance weaker countries and promote the development of the latter, either by direct loans or by necessary credit extensions. By such a method of wise and far-seeing reciprocity, Great Britain and France exacted tribute from almost every country in the world, enhanced the financial supremacy of London and Paris as international monetary centers, and gained for themselves a commanding eminence in world trade.

The way is open to the United States in the present to do as much. And to some extent a beginning at least has been made. To be productive of the highest results, however much more remains to be done.

To change America from a debtor-nation to a creditor-nation, even with the huge gold hoard and increased banking strength as a basis cannot be accomplished over night. A nation is merely an aggregation of individuals speaking and acting as a whole. Its habits, emotions and feelings are merely those of its individual units; so too are its resentments or dislikes. Before the trade of an individual can be secured one must obtain his goodwill; this is also true of nations. Although, in expanding our own commerce within the last two years, we have taken no unfair advantage of any other nation, we certainly have been enabled to progress largely because of the extremities and internal dislocations of numerous countries involved in the present war. Trade coming to us, under such cir-

cumstances, or gold, for that matter, is not so much a matter of choice as it is of necessity; and has not back of it the *goodwill* of the people who favor us. Goodwill is the talisman which attracts and holds trade, and a factor in promoting goodwill is foreign lending.

"Inexhaustible Resources"

The wealth and resources of Great Britain and France are so enormous, that they preclude any serious thought of possible loss to this country through loans made by it to either country. Of Great Britain's material wealth, Frederick the Great once said: "Among all the nations of Europe the English Nation is the wealthiest. Its trade embraces the globe. Its capital is incredibly large. Its resources are almost inexhaustible." That was more than a century ago, and the time which has since elapsed but reaffirms the truth of the great German's tribute.

British Chancellor's Assertion

As recently as August of last year, the Right Honorable Reginald McKenna, Chancellor of the British Exchequer, said: "If we were to end the war at the end of the current financial year, that is to say, on March 31, 1917, our present scale of taxation would provide not only for the whole of our peace expenditure and the interest on the whole national debt, but also for a sinking fund calculated to redeem that debt in less than forty years, and there would still remain a surplus sufficient to allow me to abolish the excess-profits tax and to reduce other taxes considerably."

British-French Income

Cursory examination of the income account of the British Isles shows an annual return of $12,000,000,000 with an aggregate of more than $10,000,000,000 for France. Our loans to these countries do not exceed $1,500,000,000 and at 5% would only require an annual interest return of $75,000,000, or *only about one-third of one per cent.* of the

joint annual income of Great Britain and France.

Again, although embroiled in a foreign war, which one might well suppose would tax to the uttermost the energies of these nations and result in a loss of overseas trade, both Great Britain and France increased their exports to this country in 1916 over the figures for 1915—Great Britain by $52,000,000, and France by $25,000,000.

British-French Wealth

During the last century it has been computed that the wealth of Great Britain has increased more than six times, and this is also true of the national wealth of France. According to a 1915 report of the United States Bureau of Foreign and Domestic Commerce, the wealth of the United Kingdom of Great Britain and Ireland totals $85,000,000,000; while for France a corresponding valuation is placed at $50,000,000,000. Sir George Paish, the eminent English economist and writer, recently declared that since the beginning of

the war the national income of Great Britain had risen $3,000,000,000, or from $12,000,000,000 annually to $15,000,000,000, notwithstanding the fact that over 4,000,000 men had joined the colors and left the ranks of industry. The annual savings of Great Britain are estimated at $1,875,000,000, and those of France at $1,250,000,000.

War Debt and Income

Despite the enormous expenditures of Great Britain and France since the beginning of the war—expenditures running into thousands of millions of dollars—a statistical computation shows that, estimated on a *per capita* basis, the burden is relatively not greater than was that of the debt imposed by the Napoleonic wars which ended with Waterloo. For Great Britain the bond interest obligation then was about 11%, with total government expenditures using up annually about 20% of national income. In the present, or immediate, future, the bond interest which Great Britain must pay is placed at 7%,

and her aggregate annual outlay at 15% of the total national income. For France, annual bond interest payments are now computed at 11% and governmental expenditures about 9%, or in all about 20% of the national income. Neither Great Britain nor France possessed resources in 1815 one-sixth of what they own today, yet the debts imposed by the campaigns from 1791 to 1815 were borne successfully and were discharged in full.

An Astounding Parallel

While the public debt of all the belligerents has increased enormously, thereby increasing the annual interest charges which the future must provide, we have here in America a very close historical parallel. In 1860, the principal of the interest-bearing public debt in the United States was $64,842,000. In 1862, after two years of civil war, this had risen to $365,304,000, an increase of almost 600%. And in 1865, this debt had risen to the then staggering total of $2,674,815,856. Notwithstanding all that has been published

with relation to the war debts of the European belligerents, there is nothing in any way comparable to this astounding ratio of increase in America's public debt from 1862 to 1865.

Debt and Security Prices

During the Napoleonic wars England's public debt was practically trebled, standing after Waterloo at about $4,500,000,000. Today, it has again trebled. In a single year of war with Prussia, 1870, France found her public debt enlarged 70%. The movement of the respective securities of Great Britain, the United States, and France, during the Napoleonic wars, the Civil War and the Franco-Prussian campaign are worthy of mention. British consols, selling at 90 before the Napoleonic wars, dropped to 47¼ at the outbreak of hostilities; went to 84 in 1817, two years after Waterloo; and sold as high as 97 in 1824. In America our U. S. Fives, at par in 1861, dropped to 83 on the exchange, but went to 125 in 1869. French Five per cent.

loan, offered to raise the billion-dollar indemnity to Prussia in 1871, sold at first as low as 79¼ and 80⅝. In 1874, these securities rose to 100½, and to 125½ in 1881, barely ten years after their issuance.

Earlier War Outlays

All told, the Napoleonic Wars, which lasted from 1793 to 1815, cost approximately $6,300,000,000. The Mexican War cost us about $81,000,000. Our Civil War resulted in an aggregate expenditure exceeding $8,000,000,000, from 1861 to 1864. The Franco-Prussian War, the next to follow, consumed not less than $3,000,000,000. The second South African War, 1900 to 1902, cost in round figures $1,300,000,000; the Russian-Japanese engagement consumed not less than $3,000,000,000; and our comparatively trifling hostilities with Spain, 1898, added $165,000,000 to this country's public expense.

Enterprise Unchecked

Despite the relative closeness of the Spanish-American, South-African and Russo-Japan-

ese wars, involving an aggregate approximate expenditure of $4,465,000,000, the fact is significant that between 1898 and 1905—the period embracing all three wars—over all the world arose a practically concurrent demand for capital for new enterprises, which was fully satisfied. There was little, if any, disturbance to industrial operations and, save in the respective war theatres, no noticeable diminution in the world's production. The march of progress continued with scarcely noticeable interruption, apparently unchecked and uninfluenced by the wars in question.

Improved Economic Relations

Summing up the developments of the present war as far as these affect the financial position of the United States, we may assume that of a probable aggregate of $4,000,000,000 owed by us to European investors, we have redeemed over $2,000,000,000. We have saved thereby not less than $100,000,000 a year, which we paid formerly to Europe in divi-

dends and interest. Moreover, we have loaned to foreign countries in the last two years, in round numbers, another $2,300,000,000, upon which we shall receive annually hereafter another $115,000,000 in interest paid to us from outsiders. It makes but little difference to us whether these loans are renewed or continued, are paid off at maturity, or are refunded. While they run, annual interest will reach us. If paid off, we shall have created for us a surprisingly large credit balance. If they are refunded by securities negotiable in New York or London, this country will be placed in a position to regulate with precision its economic relations with all the world's markets—a power which London exercised freely heretofore, and which enabled that center to dominate the world's finances.

America's Opportunity

During the Napoleonic Wars, English capital steadily accumulated, and enabled that country to pay off the war debt and largely to finance the needs of other countries. This